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5 Feb 79

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TALKING POINTS ON INTERNATIONAL OIL

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I. Iran events have impacted world oil market

-Both near & long term supplies look tight

II. Near term major concerns

A. How long until Iranian production goes up and how much will it reach?

1. Won't reach pre-revolutionary levels

2. Other producers have taken up some, but not all slack

B. Consumer reactions will be important

1. Spot market prices up (some \$3/barrel premiums)

2. Rebuilding stocks will put on more pressure

3. Hoarding is a danger

III. Medium & long term major concerns

A. Iranian production probably lower than in past

B. Iran's turmoil has frightened other important producers, e.g. Persian Gulf states & Mexico

Their attitudes shifting to slower development, hence less incentive to produce oil

IV. On balance

-Near term shortages could develop

-Even if not significant risk of shortages in early to mid-'80s

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ILLEGIB

Nov. - Iran

*DDCI
notes*

New Estimates on Oil Situation

OPEC supply
^ 1

1. Recent events, particularly Iran, drastically altered oil situation.
Near-term as well as long-term implications.
2. Near-term accentuated by stock rebuilding in 2nd and 3rd quarter.
If Iran continues and no reduced growth in consumption serious shortages a risk. Consumer reaction could compound. Isolated shortages exist now. Prices up on spot market.
3. Little hope of increased output in short term.

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5. Medium and long term not much better unless dramatic action taken.
 - a) Last briefing graph. *OPEC* Supply inadequate to meet demand thru mid-80's.
 - b) Second graph takes into account recent *supply* trends. Same demand projections. Downward shift in supply curve.

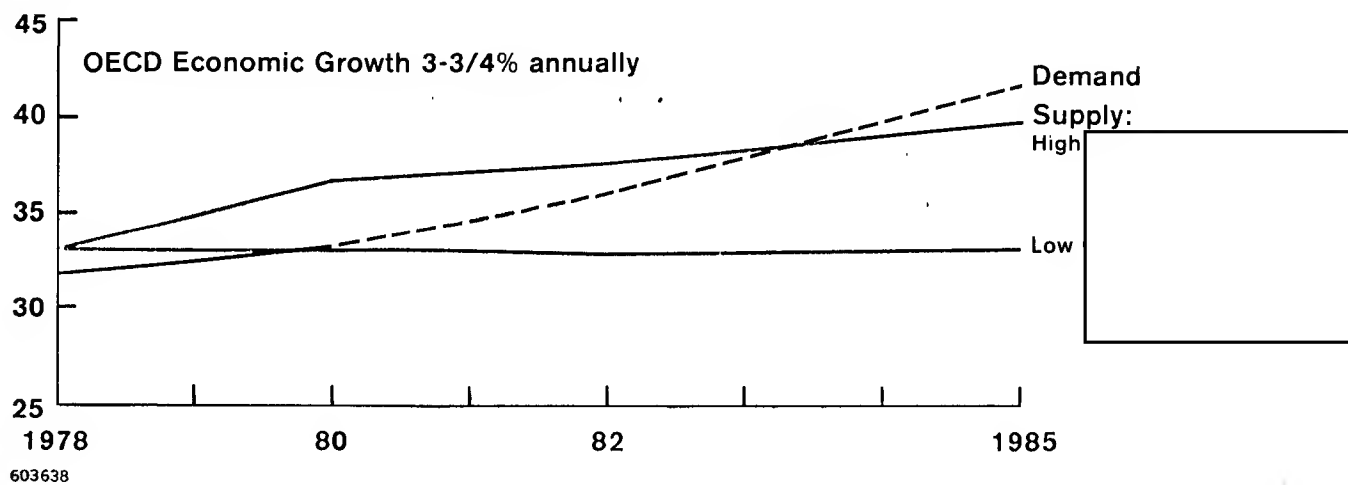
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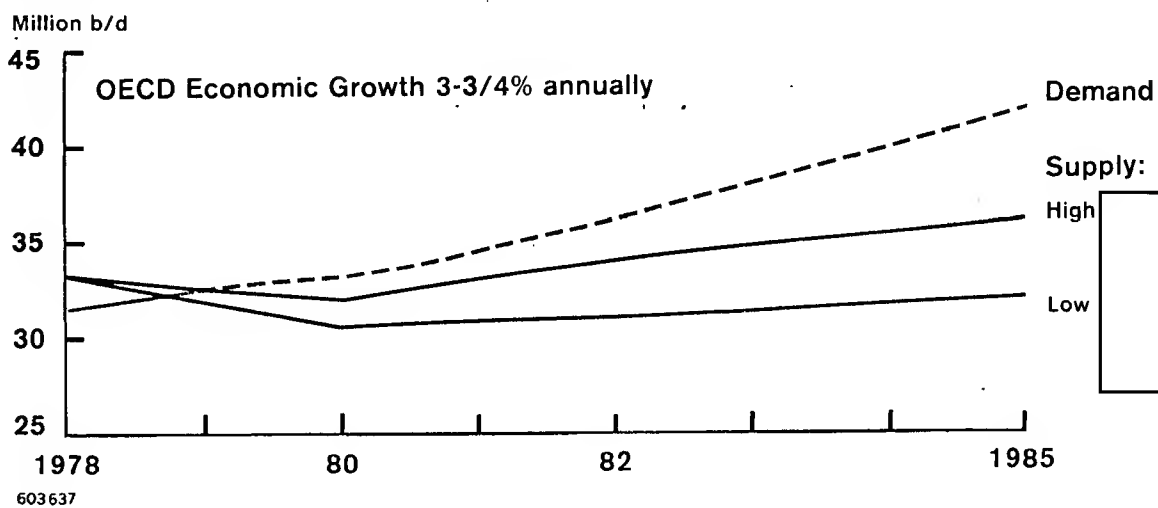
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6. Outside OPEC Mexico is key. Not likely go above 3.9 we projected and could go as little as 3 if don't find market for natural gas and opt for slower growth. Technically possible to go to 5 by 1985 but unlikely because of Iran lesson.
 7. What amounts to is that we now assess our earlier low level estimates to be closer to mark than high. And then we add Iran.
 8. Could have slower economic growth, but on balance see considerable risk of shortage this year, and high risk in early to mid-1980's.
 9. *Next couple weeks explore options. Mexico & Saudis to conservation.*

OPEC Oil: Scenario of Supply Demand Balance (August 1978)

Million b/d



OPEC Oil: Updated Scenario of Supply Demand Balance (January 1979)



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I. Review Iranian Oil Situation--Impact World Energy Scene

A. No easy prediction on whether oil strike will be solved

1. Carrot-stick policy

- Big salary increase / *up to now paid while on strike*
- Dismissal and evicting from housing those who don't come back
- Arresting leaders

2. All senior people & about 50% blue collars back

3. But some foreign technicians appear to be leavingB. The shortfall of oil available on world markets last 3 weeks .
attributable to the Iranian strike is about 4.0-4.5 million b/d.

This is:

- Almost 9 percent of normal Free World consumption (51 million b/d)
- Over 13 percent of normal demand for OPEC oil at this season
(33 million b/d)
- Even more serious if the winter proves unusually severe

C. Under no circumstances can Iranian production be fully restored overnight;

1. Technical viewpoint

- Something like 900,000 b/d or more of Iranian capacity has been put out of service for months. Due water saturation that develops when well shut in. End up pumping more water, less oil when start back.

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(FREE
WORLD
STOCKS
END OF
JUNE 78)

D. Free World inventories are ample (3.6 billion barrels at the end of September) but no real comfort:

- one half needed as pipeline
- Rest is enough to cover the Iranian shortfall completely for almost a year

CHART SHOWS IMPACT TWO MONTHS CLOSE DOWN

E. Problem even though there are adequate stocks, psychology of shortage as shown in 73 is to hedge against future by maintaining or increasing stocks

1. This kind of psychology makes intermarket transfers less likely and true shortages can develop

[Redacted]

2. [Redacted] oil traders building up inventories

- Were doing in anticipation of OPEC price hike
- Now gambling on making a big killing should Iran problem continue

F. One solution, of course, is to replace Iranian shortfall and dispel impression of crisis

- Sources that have already contributed

1. Non OPEC

.3

2. Other OPEC--

[Redacted]

3

[Redacted]

Will weather permit tanker loading at the maximum rate?

Can the facilities stand the strain?

OIL RECOVERY-
PRODUCTION
PATH)

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4. DoE advises that the US has already cut stockpiling .2
plans from 400,000 to 200,000 b/d. 2.3

II. Solutions still to be brought to bear

A. Excess capacity of about 1.3 mb/d

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B. Japan & US

1. Stop stockpiling
2. Sell from reserves
3. Balance of payment impacts

Downside -

Adm - 10% price hike

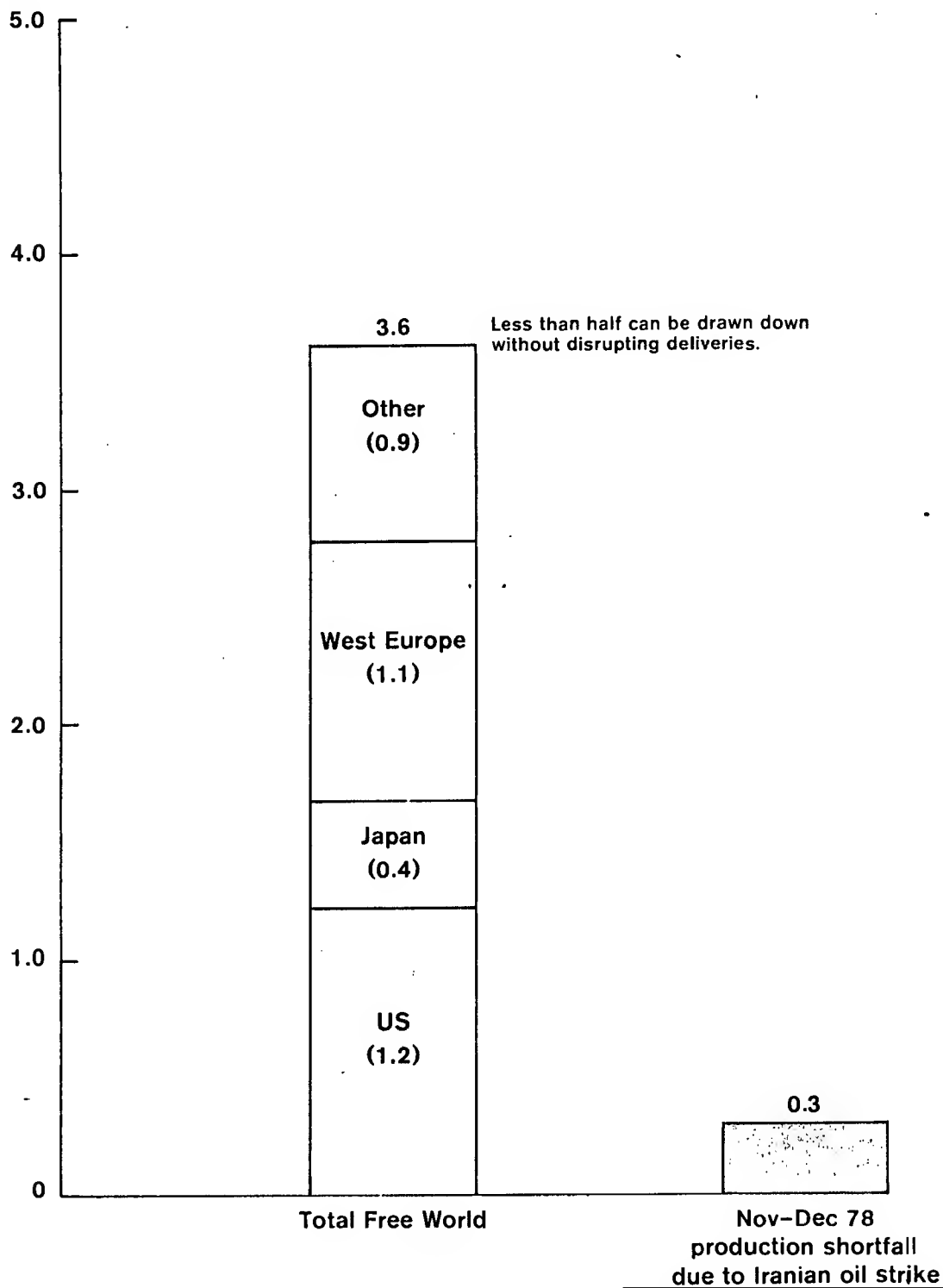
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Free World Stocks⁽¹⁾ End of Second Quarter 1978

Billion Barrels



1. Exclusive of stocks at sea, which do not constitute a net addition.

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